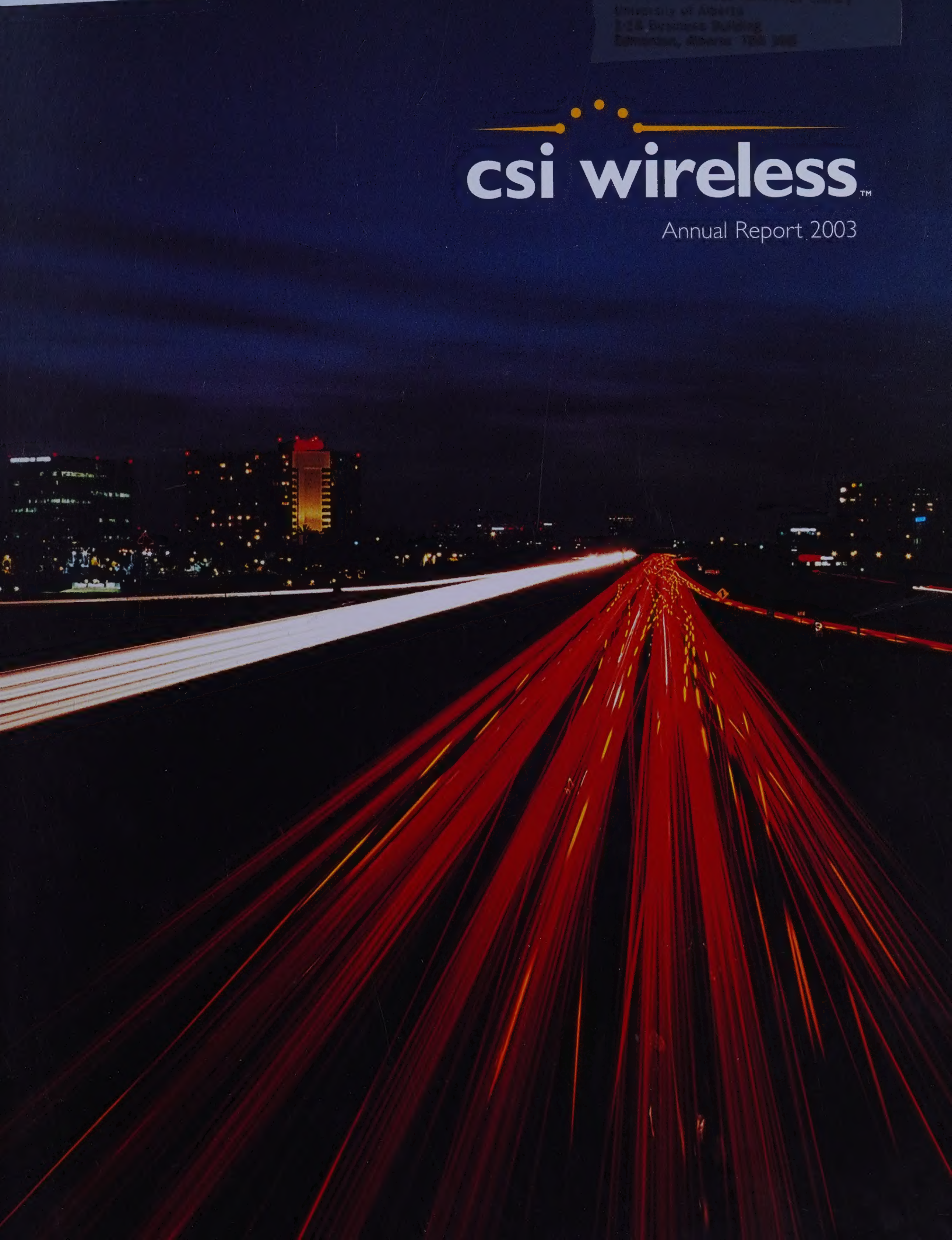
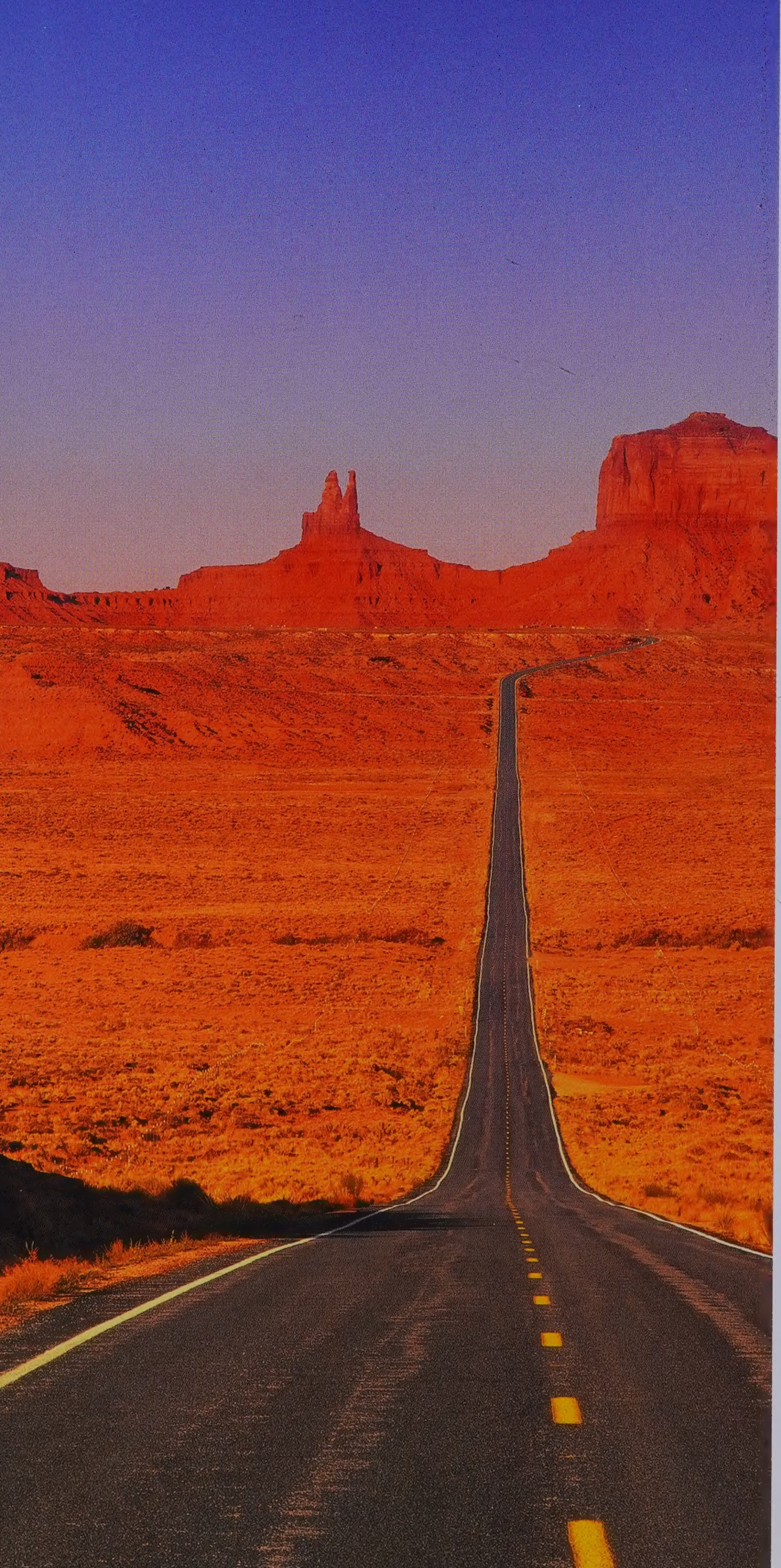


csi wireless™

Annual Report 2003



CSI Wireless

CSI Wireless, from offices in Calgary, Alberta, California's Silicon Valley, and Scottsdale, Arizona, designs and manufactures innovative, cost-effective wireless and Global Positioning System (GPS) products for mobile and fixed applications in commercial and consumer markets. By integrating wireless and GPS technology, CSI Wireless has become an industry leader, serving several emerging high-growth markets including telematics, fleet management, asset tracking, stolen vehicle recovery and fixed wireless telephones. The Company owns several patents and intellectual property relating to wireless and GPS technologies, and has licensed its technology to GPS, cellular handset and chipset manufacturers.

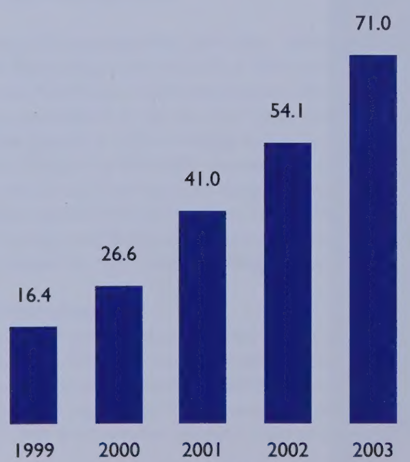
Financial Highlights

	2003	2002	2001	2000	1999
Revenue	$71,046	$54,136	$40,961	$26,591	$16,360
Gross Margin	18,761	15,898	13,114	7,706	6,919
Gross Margin %	26%	29%	32%	29%	42%
Net Income (Loss)[1]	(553)	(3,857)	(6,874)	(5,644)	801
Research & Development	7,017	8,049	8,142	4,116	1,261
Total Assets	41,017	40,737	39,525	36,980	11,409
Shareholders' Equity[2]	26,870	19,527	18,847	17,362	4,037
Earnings Per Share[1]	(0.02)	(0.20)	(0.39)	(0.53)	0.13

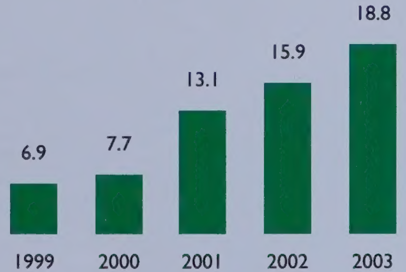
(In thousands except for gross margin %)

[1](before goodwill amortization)

[2](excluding preferred shares)

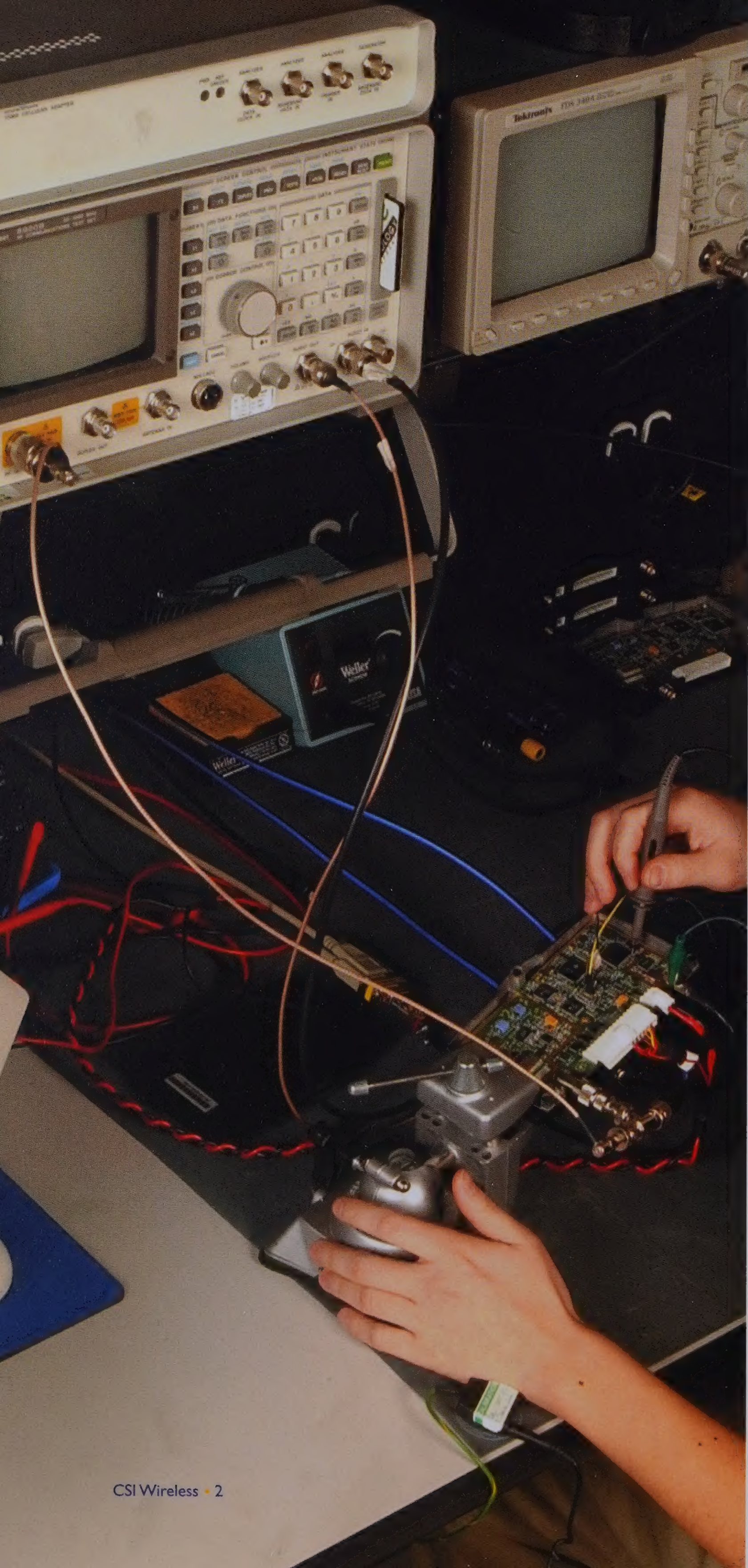


Revenue ($ M)



Gross Margin ($ M)

R & D as % of Revenue



Message to Shareholders

2003 was a year in which CSI Wireless made significant advances in our technology leadership, product portfolio and competitive position within our core markets.

It was also our sixth consecutive year of record revenues. Despite negative foreign exchange-rate impacts and a challenging economic environment in 2003, the strength of our GPS business and significant sales of our new wireless products led us to annual growth of 31%, resulting in revenues of $71 million, up from $54 million in 2002.

Our corporate growth in the last several years has been remarkable – from less than $5 million in 1997 to more than $70 million in 2003. This is a testament to the dedication and commitment of the entire CSI team and the quality of our products and markets. Moreover, looking forward, we believe our growth has only begun. Our future has never looked brighter in terms of opportunity, performance, financial strength and outlook.

A key goal for CSI Wireless in 2003 was a return to operational profitability, which we achieved. In 2004 we are preparing for the most profitable year in the Company's history – with further success and growth anticipated in 2005 and beyond.

2003 was also notable for the Company from a technology-development perspective, as we secured technology and market leadership in each of our three core businesses – GPS, telematics, and fixed wireless telephony. In 2003, we penetrated new markets with new GPS and wireless products, created by our highly skilled R&D team, which continues to play a critical role in our success and which has directly contributed to our emergence as a leader in many of our market niches.

One of the most exciting developments for the Company in 2003 was announcing the addition of the GSM wireless platform – or the Global System for Mobile Communications – to our technology portfolio.

GSM recently surpassed the one billion subscriber mark, and has been adopted in more than 200 countries and territories worldwide, representing over 72% of global wireless subscribers. In the last two years, there has been explosive growth in GSM coverage in North and South America. Today, with 152 GSM operators in 47 countries in North and South America, GSM coverage represents an enormous market for CSI Wireless. Europe, Asia, Africa and other markets worldwide also represent exciting opportunities for our Company going forward.

Fixed Wireless

Our new fixed wireless phone finished its first full year of deployment in 2003, and enjoyed great success. Our core product, the Motorola-branded FX800t fixed wireless telephone, developed and supplied by CSI Wireless, has become the largest selling TDMA fixed wireless phone in Latin and South America.

The phone is distributed throughout these markets by CSI's partner, Brightstar Corporation. Brightstar is a Motorola licensee and is branding the phones as the "Motorola FX800t". In 2003, CSI shipped record volumes of the FX800t, generating revenues of more than $35 million.

Over the last year, the Company placed a strong focus on reducing the phone's production costs. By enhancing our product design and manufacturing methods, we achieved significant cost reductions and improved gross margins for this product. This in turn increased the profitability of the product line, while simultaneously providing a lower price point for customers – truly a win-win initiative.

Currently, it is estimated that there are over 60 million homes in Latin and South America without telephone service. Fixed wireless telephony is the fastest and most cost-effective method of deploying telephone service to these homes, and is seen as the key driver of demand in developing areas. We see significant long-term growth opportunities within these markets. Brightstar has provided forecasts for 2004 that show a solid volume increase over product volumes shipped in 2003. In addition to these developing countries, there are significant opportunities for fixed wireless in developed countries. In the United States, for example, the "local number portability" legislation could dramatically increase the demand for fixed wireless phones.

Following the success of our TDMA fixed wireless phone in 2003, we have expanded our product portfolio by launching the development of a GSM fixed wireless telephone. The addition of a GSM version to our product line in the latter part of 2004 will substantially expand the Company's addressable market. Together, TDMA and GSM networks cover more than 600 carriers and 80% of the world's 1.4 billion wireless phone subscribers.

The GSM fixed wireless phone has an addressable market 10 times larger than that of our TDMA phone. To ensure the GSM version's success, we will begin by leveraging off the success of our TDMA product in the Latin and South American markets, while simultaneously moving into other international markets. To date we have seen considerable interest in our GSM product from every geographic region of the world.

Based on the current market interest and customer forecasts, we expect the GSM fixed wireless telephone to significantly increase our fixed wireless telephone business.

Telematics

In addition to our fixed wireless business, our telematics business is also gaining strength, with our biggest accomplishment in 2003 being a substantial improvement in gross margins for this product line. For 2004, we are expecting strong performance from our new digital products scheduled for release mid way through the year.

CSI's Asset-Link™ family is a line of innovative and cost-effective fleet-tracking, safety and security telematics products. The Asset-Link™ 100 and Asset-Link™ 200 address wireless networks throughout most of the Americas, while the new GSM-based Asset-Link™ 400 addresses wireless networks in the Americas and throughout the rest of the world.

The Asset-Link 400 leverages the digital GSM wireless network by providing combined AMPS/MicroBurst/GSM capability. This product is designed primarily for our commercial customers, and features a number of attractive capabilities, including the largest geographic coverage of any terrestrial network or cellular technology and increased functionality and simplification. With the Asset-Link 400, we have added new application areas and new geographic markets.

We are pleased with the overall progress of our telematics product line. The market remains early-stage, but there are increasing indications that rapid growth is imminent. To date we have achieved a solid position in this market. We are investing in new products and working with existing and new customers to ensure we are appropriately positioned to capture key growth opportunities.

GPS

Our GPS Business Unit continues to exceed our expectations, providing solid profitability again in 2003. 2004 began with the strongest GPS backlog ever, and the opportunities are continuing to grow.

Most of our current GPS revenues come from the agriculture market. In 2003, we introduced an exciting new precision guidance product – auto steering – into this market, which has generated an enthusiastic response since its December launch. Sales through RHS Inc. of the Outback® eDrive auto-steering product have thus far been better than we expected, paralleling the continuing success of the CSI-manufactured Outback® S and Outback® 360. The Outback S and Outback 360 have both received awards for "outstanding innovation" from the American Society of Agricultural Engineers.

In 2003, we expanded our relationship with RHS, announcing more joint initiatives resulting in increasing revenues. CSI Wireless has followed a consistent strategy of employing key distribution relationships with market leaders, such as with RHS, to maximize the distribution of our products and technology. Improving conditions in the agricultural industry going into 2004 should also help to generate strong results in the agricultural guidance market.

Our re-entry into the marine market, with our integrated receiver-antenna units and our Vector line of heading products, has resulted in new relationships with various companies including MX Marine and RS Maritime. These opportunities, and more stemming from the other GPS products we produce, point to strong growth in 2004.

It is clear that both operationally and strategically, CSI made significant strides in 2003. We maintained dominant positions in our targeted GPS markets, and took solid steps in developing both our telematics and fixed wireless businesses.

I believe we are better positioned for success today than at any time in CSI's history, with outstanding products in several targeted developing markets, solid technologies, strong customer and channel relationships, and a strong financial base.

To support our operating requirements and to reduce shareholder risk, we completed an equity financing of more than $16 million during the first quarter of 2004. This has dramatically strengthened our balance sheet and working capital. We are now debt-free and have an appropriately healthy cash balance.

We have experienced impressive accomplishments in recent years, thanks to the dedication and effort of all our employees and also to the patience and support of our shareholders. Looking forward, we see significant opportunities on which we plan to capitalize, and I look forward to reporting to you next year on our ongoing progress and success!

S.A. Verhoeff

Stephen Verhoeff
President & Chief Executive Officer

FWT Fixed Wireless Telephones

CSI Wireless' fixed wireless telephone, part of the Company's Wireless Business Unit, became a significant revenue generator for the Company in 2003 after its introduction in 2002.

The Motorola FX800t resembles a typical wall-mounted or desktop telephone. It is "fixed" in that it draws its electrical power from a standard AC electrical cord rather than a portable battery, but wireless in that it is not connected to traditional copper-wire landline networks.

The Motorola FX800t has become very popular in Mexico where, like many developing countries, traditional copper-wire landline networks are scarce or unreliable.

For many Mexican families and small businesses, the Motorola FX800t is the first telephone they have ever owned. They could have purchased portable wireless handsets, but the FX800t's three watts of power output equates to far better range and voice quality than what is possible with portable handsets or with competing fixed wireless telephones that put out only 0.6 watts of power.

The FX800t also features hands-free capabilities and a very user-friendly menu and key pad. These attributes, and the fact the telephone underwent stringent quality testing before being awarded the renowned Motorola brand, are ensuring strong sales in Mexico.

To market the Motorola FX800t, CSI Wireless adopted what has proven to be a very cost-effective strategy for many of the Company's product lines – forming partnerships with successful, well-established players. To that end, CSI has a distribution agreement with Brightstar Corporation, one of the world's largest electronics distributors, and Motorola's strategic distribution partner throughout Latin America.

Brightstar is selling the Motorola FX800t to Telcel, Mexico's national cellular carrier, which markets the phone to consumers via its nationwide retail network. Brightstar has also begun to market the FX800t in other Latin American countries including Guatemala and Columbia.

The current version of the Motorola FX800t is designed to function using TDMA (Time Division Multiple Access) cellular technology, which provides broad coverage in North, Central and South America.

However, in late 2003, CSI announced that it was developing a GSM (Global System for Mobile communications) version of its fixed wireless phone, for use both in the America's and throughout the rest of the world.

GSM is the world's dominant wireless technology – used by more than one billion consumers in more than 200 countries and territories. Together, GSM and TDMA are serving 80% of the world's 1.4 billion consumers, via more than 600 carriers. Volume shipments of CSI Wireless' GSM-compatible fixed wireless telephone are to begin in the second half of 2004.

GSM Prototype

CSI Wireless' Fixed Wireless Telephone Finds Application Close to Home

CSI Wireless' fixed wireless telephone (FWT) played a crucial communications role in the summer of 2003 during forest fires that raged across southern California – destroying hundreds of homes, and forcing thousands of residents to seek emergency shelter.

"We operated the phone at several American Red Cross evacuation shelters near the fire zones," said Gordon West, District Emergency Coordinator for the Amateur Radio Emergency Service that provides communication services during public emergencies.

"Both the firefighters and the shelter clients were able to use the phone to stay in touch with loved ones and to make arrangements for getting their lives back to normal after the complete loss of their homes."

"It was interesting to note," West added, "that the fixed wireless telephone was always able to get through – whereas other cell systems had problems. We also noticed that our conventional satellite phones would seldom get through because of the heavy overload of fire-related communications they were experiencing. But the FWT seemed to get through anytime we picked up the handset."

The sometimes remote emergency shelters that were established to house evacuated homeowners and their families during the California forest fires proved to be an ideal environment in which to test the fixed wireless telephone's effectiveness.

West noted that many people who arrived at the emergency shelters had little or no experience using conventional handheld wireless phones. And so when they were offered various wireless phones to contact their friends and relatives, "there was always a line behind the free phone service from the FWT because it looked, worked and sounded like the desktop and wall-mounted phones they had at home."

Motorola FX800t

Telematics

Asset-Link™

The other major component of CSI's Wireless Business Unit is the telematics product line, which increased in size during 2003, while also achieving important sales successes and market recognition.

CSI began the year with two telematics products – the Asset-Link™ 100 and the Asset Link™ 200. Both combine the Company's wireless communications technology with its GPS technology to enable consumers and businesses to remotely monitor their vehicles' movements and performance.

The Asset-Link 100 utilizes the Microburst™ cellular network that employs other networks' Control Channel capacity to maintain a low-cost data transmission network throughout North America and parts of Central and South America. Customers equipped with the Asset-Link 100 can perform many asset-tracking and fleet-management functions including:

- tracking vehicles' locations and speed;
- monitoring vehicles' performance including engine temperature, oil and tire pressure, brake wear, plus other factors such as engine running hours;
- logging and analyzing performance data, including temperature trends;
- performing important security and stolen vehicle recovery functions such as geo-fencing (sending alerts if vehicles venture outside specified geographic boundaries) plus door-lock and ignition controls; and
- employing potentially life-saving automatic safety features including crash-notification, airbag deployment notification and emergency dispatch.

The Asset-Link 200 has the same features and capabilities as the Asset-Link 100, while also offering Circuit Switched analog or Advanced Mobile Phone Services (AMPS) capability. Operators can use Control Channel for basic control and position-reporting services, and Circuit Switched analog to transfer vehicle history data, and perform over-the-air maintenance to in-vehicle hardware, without returning the vehicle to the shop or sending out maintenance staff.

In May of 2003, CSI Wireless added to its Asset-Link product line by introducing FLT-Link – a tracking and reporting product specifically for tractor trailers and other mobile assets and cargo.

One version of the FLT-Link product functions using the truck's power system, with a back-up power source that enables FLT-Link to keep generating location and other data for as long as two months after the trailer has been disconnected from the truck. CSI also offers a solar-powered version of FLT-Link that can keep generating data no matter how long the trailer is disconnected from the truck.

FLT-Link, like the Asset-Link 200, is capable of using the Microburst network and Circuit Switched analog technology.

In October 2003, CSI Wireless announced the Asset-Link™ 400 for use with GSM (Global System for Mobile communications) technology. GSM, in addition to being increasingly popular in North America, is available in more than 200 countries and territories around the world.

CSI offers three versions of the Asset-Link 400 – a GSM-SMS version, a GSM-analog version, and a GSM-GPRS (General Packet Radio Service, which features high band width) version. Together, they offer customers reliable asset-tracking capability and coverage over a larger global geographical area than what is available from any other telematics product.

At the same time as CSI has been adding to its telematics product line, it has also been generating important telematics sales agreements.

CSI announced an agreement in 2003 with Directed Electronics Inc., the world's largest after-market vehicle security and remote-start manufacturer, with sales in more than 46 countries. CSI is providing a unique telematics product based on the Asset-Link platform.

CSI's agreement with Directed is putting Asset-Link units in consumers' hands. A similar 2003 agreement with Fleetboss Global Positioning System Solutions Inc. is putting Asset-Link units in the hands of trucking companies and other fleet owners.

Asset-Link systems enable fleet owners to track and manage their mobile assets more profitably. Users can:

- lower their fuel bills and maintenance costs by monitoring speeding and excessive idling;
- increase fleet efficiency and productivity by monitoring how much time vehicles are stopped during service calls;
- control "moonlighting", "side trips" and other unauthorized use of vehicles by monitoring when and where they are used;
- reduce accident rates by making drivers more aware of their driving habits; and
- verify billing times to ensure customers aren't being billed too little or too much.

Asset-Link systems also play a crucial role in deterring vehicle thefts. Whereas competing systems become active only when the owner reports the vehicle is missing – which can be hours, days or even weeks after a theft occurs – Asset-Link units send an alert to the owner as soon as the vehicle is moved without authorization. This dramatically improves the potential for the vehicle's recovery. Industry statistics show that vehicles recovered within an hour after being stolen are 250% more likely than other stolen vehicles to have avoided damage.

Asset-Link is the core hardware in Directed's Clifford GPS Tracking System, and in three more vehicle tracking and stolen vehicle recovery systems available from Directed – under the company's well-known Viper, Python and Automate brands.

Another significant telematics customer is AirIQ Inc. of Pickering, Ontario. AirIQ is a leading North American provider of fleet-tracking systems. Its customers include car rental companies such as Budget and Thrifty, plus a variety of trucking companies.

FLT-Link

Agriculture

CSI's extensive line of GPS products for agricultural use continued to play an important role for the Company in 2003. New products were introduced, new sales agreements announced, and new patents awarded.

In early 2003, CSI unveiled its new Outback® Hitch, the first GPS product designed and built specifically for guiding agricultural implements such as planters, sprayers and cultivators. The Hitch ensures that tractor-pulled implements follow precise paths, which reduces crop damage and operator fatigue, while also achieving other cost-efficiencies.

The Outback Hitch is an accessory to the Outback® S, CSI's popular guidance system. The entire Outback line (which also includes the Outback® 360, a computerized visual aid system) is designed and manufactured by CSI under contract for RHS Inc. RHS retains the Outback trademark and has worldwide marketing rights for the product line. RHS began marketing the line in North America, and has successfully moved into South America, Europe and Australia.

In late 2003, CSI further expanded the Outback line by introducing eDrive® – a new automatic steering system. eDrive automatically steers tractors and self-propelled sprayers along straight or curved rows. Drivers need their hands on the steering wheel only when turning their vehicles around at the end of each row.

RHS is offering eDrive as an upgrade feature to the more than 10,000 Outback S units it has already sold, and packaging eDrive with new Outback S units. It is priced several thousand dollars below the cost of competing auto-steer systems.

The success of the Outback line has helped CSI Wireless and its Satloc LLC subsidiary become increasingly popular suppliers of ground-based guidance systems for agricultural use. Other CSI/Satloc products aimed at this sector include the SwathStar M3, AgIQ and LiteStar II systems.

Meanwhile, CSI/Satloc continues to be the largest supplier of aerial-based guidance systems for agricultural use – thanks to several highly successful products including the Satloc M3, AirStar™ 99.5, and LiteStar.

CSI/Satloc added to its aerial guidance line in late 2003 by introducing the LiteStar II, a low-cost entry-level guidance system, and the AerialACE, a variable rate flow control system for aerial spraying that is automated.

The new LiteStar II for *aerial* applications is similar to the previously released LiteStar II for *ground* applications. Its data-logging capabilities enable operators to dramatically improve their efficiency by logging many of their common flying patterns and coordinates so they can more easily navigate. Included in the logging option is CSI/Satloc's popular MapStar™ software that enables operators to view, print and analyze maps. The LiteStar II includes CSI's SLGg3 receiver that is capable of receiving radiobeacon, WAAS and/or OmniSTAR signals, and is compatible with CSI's patented e-Dif technology that provides positioning accuracy similar to Differential GPS without needing DGPS signals.

The AerialACE enables operators to automatically vary the concentration and content of the material they aerially apply to their fields. Aerial images with detailed crop data are used to create prescription maps for each field. The AerialACE's automation enables operators to focus on flying, which enhances safety and reduces operator fatigue.

The AerialACE, LiteStar II, Outback Hitch and eDrive are helping to ensure that CSI Wireless' GPS products for agricultural use continue to be important sources of revenue for the Company. For example, when CSI introduced eDrive in late 2003, it announced a $2.1-million purchase order for the product from RHS. That order was in addition to the $11-million order that CSI received from RHS in mid 2003 – covering Outback S, Outback 360, and Outback Hitch purchases.

During 2003, CSI also announced:

- an agreement to supply LiteStar II systems and AgIQ receivers to AGCO Corporation, one of the world's largest manufacturers and distributors of agricultural equipment;
- an agreement to provide $3 million of MBX-3S Differential GPS receivers to 3-D Marketing LLC, which is supplying them to the US Department of Agriculture and other federal departments and agencies under a multi-year contract;
- an agreement by RHS to supply CSI-built Outback S guidance systems to CLAAS KGaA mbH, one of Europe's largest agricultural equipment manufacturers; and
- receiving a US patent for GPS technology that enables agricultural guidance systems to define a tractor's desired path while also monitoring its current path, so when the tractor occasionally strays from its desired path, the system provides correction signals so the driver can quickly return the tractor to the desired path without over-compensating.

Outback® S

CSI Wireless/Satloc GPS Guidance Products Play Growing Role in Fighting Forest Fires

GPS guidance products from CSI Wireless and its Satloc LLC subsidiary are playing a growing role in fighting forest fires – to combat flames, and to re-vegetate blackened terrain after the flames have died.

During several forest fires in 2003 in British Columbia, helicopters with infra-red heat-sensing equipment and CSI's Seres combination GPS receivers/antennas were used to find "hot spots" (areas of residual heat, often smoldering in underground roots), record their precise GPS coordinates, and relay the coordinates to firefighting crews on the ground who traveled to the remote sites and quickly doused the flames.

The GPS coordinates proved time and again to be so accurate that firefighters said they had no trouble finding and eliminating their targets.

"We chose CSI's Seres (which is also sold by Satloc as the "AgIQ") because it's small and rugged – perfect for the firefighting environment," said Ray Hyland, Marketing Director for LinearVision, which supplied hotspot detection, mapping and data-delivery systems to British Columbia's firefighters.

LinearVision's FireVision system took the GPS coordinates supplied by the Seres unit and fed them into a powerful GIS computer onboard the helicopter, which quickly produced full-colour aerial maps.

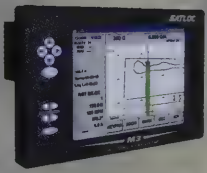
CSI/Satloc aerial guidance products also played a part in re-vegetating blackened mountainsides in Arizona and Colorado after forest fires destroyed more than 400,000 acres of timber in the summer of 2002, and more in 2003.

With no more trees, grass or other ground-cover vegetation, the mountainsides were so barren that a sudden autumn rain or snowstorm was capable of sparking massive mudslides and clogging rivers, lakes and municipal reservoirs.

Government officials responded by launching the largest re-vegetation project ever conducted in North America – a project that depended heavily on CSI Wireless' Satloc M3 aerial guidance system.

The territory that required re-seeding with a variety of soil-stabilizing grasses and wildflowers spanned a mammoth 175,000 acres. The area was so large, and on such steep terrain, that re-seeding it from the ground was impossible. And so government officials relied on the same type of aircraft used for aerial spraying or crop dusting.

They hired three firms, all of which relied on Satloc M3's. The 2002 re-seeding project was so successful that when flames plagued Arizona forests again in the summer of 2003 – including the 85,000-acre Aspen Fire north of Tucson – the government again recruited pilots with Satloc M3-equipped aircraft to re-seed as soon as the embers cooled.



AirStar™ M3

Marine & GIS

The GPS products that CSI designs and manufactures for marine and GIS & mapping applications continued to grow in numbers and sales in 2003, with CSI's Vector heading systems leading the way.

The Vector line, introduced in late 2002, includes the Vector PRO primarily for use in marine applications and the Vector Sensor for marine, machine control, and agricultural applications that depend on accurate heading information.

The Vector PRO is a "smart antenna" system that combines two GPS receivers and two multipath-resistant antennas into a single enclosure about a half-metre long. Using a sophisticated moving base station Real-Time Kinematic (RTK) technique, the Vector PRO generates heading data with a half-degree accuracy. This level of performance is similar to that offered by traditional gyrocompasses, used in marine navigation systems, at a significantly lower price.

In addition to offering a high degree of heading performance, the Vector PRO offers sub-metre positioning when using accuracy-enhancing GPS correction data. The system supports both reception of land-based Coast Guard beacon stations and of Space Based Augmentation Systems including United States' WAAS, Europe's EGNOS, and Japan's MSAS. A Vector Lite model is also available for more price-sensitive customers. It omits support of Coast Guard beacon differential reception.

The Vector Sensor is similar to the Vector PRO, but instead of combining the two GPS receivers and two antennas into a single enclosure, they are separated into multiple units. The receivers are housed in one enclosure, and each of the antennas is housed in its own enclosure. This enables users to increase the distance between the antennas up to 4.5 metres, resulting in adjustable levels of heading performance. For example, with the antennas two metres apart, compared to the half-metre separation of the Vector PRO, the Vector Sensor achieves heading accuracy better than 0.1 degrees.

CSI's other marine products include the MBX-3S integrated beacon receiver, DGPS MAX GPS/SBAS/Beacon/L-band receiver, and the MiniMAX combination GPS/SBAS/beacon receiver.

The MBX-3S receiver targets after-market customers in the marine industry, augmenting GPS navigation systems with an accurate, high-integrity source of correction data. The DGPS MAX and MiniMAX receivers target the hydrographic surveying and dredging market segments where industrial positioning performance and high position-update rates are mandatory.

Many of these marine products are also heavily used within the GIS & mapping markets, where performance is critical to ensuring integrity of recorded geo-data. The MBX-3S receiver provides stand-alone GPS receivers with a source of GPS correction data. In 2003, 3-D Marketing LLC, a CSI Wireless distributor, delivered to the US Department of Agriculture systems containing MBX-3S Coast Guard beacon receivers.

The MiniMAX and DGPS MAX receivers are key products that also target the GIS & mapping market. Both are integrated receivers – meaning they combine into a single enclosure a GPS receiver and a differential correction receiver. The MiniMAX supports Coast Guard beacon differential signal reception and Space Based Augmentation Systems, such as the US WAAS and European EGNOS services. The DGPS MAX supports both of these services and L-band satellite differential services.

CSI's Vector Sensor Helped NBC News Transmit Especially Vivid TV Reports from War in Iraq

CSI Wireless' Vector Sensor heading system helped NBC News broadcast images from the war in Iraq that featured greater clarity and immediacy than what competing networks achieved using more conventional methods.

The Sensor was an integral part of a new mobile satellite transmission system developed by Maritime Telecommunications Network (MTN) that provides global communication systems to the maritime industry. The MTN system was developed to enable NBC to transmit news footage from Iraq during the war in March and April of 2003.

Vector Sensor

To send their war reports to television viewers back home, NBC and other foreign news teams in Iraq relied on special video phones and/or dish-shaped antennas that sent video signals up to satellites, which directed the signals back to the news teams' home countries.

Traditionally, to transmit video to a satellite from a mobile truck, a news team must bring its vehicle to a full stop, set up transmission equipment, and wait for the satellite dish to achieve an accurate "fix" on the satellite. While the vehicle is stopped, the war continues. In Iraq, where US and British troops advanced across the desert at unprecedented speeds, news teams that stopped to transmit their video footage were constantly falling behind and racing to catch up.

However, the Vector Sensor, in conjunction with the rest of the video transmission system developed by MTN, enabled NBC's news vehicle to transmit crystal-clear video – while the transmission truck was still moving. In this system, the Vector Sensor reliably reported vehicle location and orientation so the satellite dish could acquire a fix on the satellite "on the fly."

"Other networks had to stop, set up their equipment and broadcast while the news was moving away from them. NBC never had to play catch-up. They were always close to the action," said Jake Kooser, an MTN technical services specialist assigned to NBC's special mobile transmission system in Iraq throughout the war. "We were glad to have a Vector Sensor on board. It really did the job for us."

Stacy Brady, NBC's Vice President of Network News Operations, said: "We were the only television network covering the war that was able to transmit 'live' from a moving vehicle, which was a coup for us. It enabled us to stay with the action all the time. We're very pleased with how our mobile satellite transmission system performed in Iraq, in very challenging conditions. We congratulate CSI Wireless for its Vector system that made 'on the run' transmissions possible."

NBC - Transmitting Vehicle

Corporate Governance

Board Membership and Independence

Four of CSI Wireless' seven directors, including the Chairman, are considered by the Corporation to be unrelated in that they are not CSI employees and do not receive any financial compensation from the Corporation other than fees and share options related to services provided in their capacity as directors. The three related directors are Stephen A. Verhoeff, CSI Wireless' President and CEO; and Michael W. Brower and Hamid Najafi, both of whom do occasional consulting work for CSI Wireless and receive fees accordingly.

The Board believes the four unrelated directors are truly autonomous of management. None has an interest, business or other relationship that could be perceived to interfere with his ability to act in the best interests of CSI Wireless and/or its shareholders.

Board Mandate

The Board is responsible for the stewardship of CSI Wireless. In discharging this responsibility, directors exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances, and act honestly and in good faith with a view to the best interests of the Corporation. In general terms, the Board:

- defines, in consultation with the CEO, CSI Wireless' principal objectives;
- supervises the management of CSI Wireless' business and affairs to achieve the principal objectives defined by the Board;
- discharges duties imposed on the Board by applicable laws; and
- takes all action that the Board deems necessary to carry out its foregoing responsibilities.

Board Expectations of Management

The Board, in consultation with the CEO, develops a position description for the CEO. The Board also reviews and approves the corporate objectives that the CEO is responsible for meeting, and assesses the CEO's performance against these objectives.

The Board expects management, among other responsibilities, to:

- propose and, in response to Board approval, execute CSI Wireless' corporate strategies, long-term plans, goals and targets;
- carry out a comprehensive budgeting process and monitor the Corporation's financial performance against the budget;
- be accountable for CSI Wireless' financial and competitive performance;
- provide timely, complete and accurate information about CSI Wireless' business operations;
- identify opportunities and risks affecting the Corporation's business, and find ways of addressing them;
- ensure the development of senior executives and plan for their succession;
- manage CSI Wireless' resources in a manner consistent with enhancing the Corporation's value while maintaining appropriate ethical, legal, environmental, corporate and social standards; and
- carry out all other actions necessary to achieve the Corporation's principal objectives.

Audit Committee

CSI Wireless' Audit Committee is composed entirely of outside (non-management) directors, and is chaired by an unrelated director. All of its members are financially literate, meaning they are able to read and understand a balance sheet, an income statement, a cash flow statement and the notes attached thereto. Mr. Hamilton is a Chartered Accountant and Certified Financial Analyst, and Mr. Lang holds a Masters Degree in Business Administration.

The Audit Committee reviews CSI Wireless' annual and quarterly financial statements, accounting practices, business and financial controls, and the results of all external audits. It also recommends to the Board the external auditors to be appointed by shareholders at each annual meeting, reviews their audit work plan, and approves their fees. The Audit Committee has direct communication lines with the external auditors. The external auditors attend and participate in all quarterly Audit Committee meetings, at which time they review the financial statements and meet with the committee separately from management.

Compensation Committee

The Compensation Committee is composed entirely of unrelated directors. It reviews and establishes the Company's compensation policy, including executive management compensation.

Corporate Governance Committee

The Corporate Governance Committee is responsible for reviewing CSI Wireless' overall governance principles, recommending any changes to them, and recommending to the Board for approval the Corporation's disclosures in response to the TSX governance guidelines. The committee monitors best practices among major Canadian companies to ensure CSI Wireless continues to adhere to high standards of corporate governance.

Board Members - Related

Stephen A. Verhoeff
Mr. Verhoeff, CSI Wireless' founder, President, and Chief Executive Officer, has been involved with the Corporation since its incorporation in 1990. He oversees all aspects of CSI's corporate operations including marketing, financial reporting, manufacturing and administration. Before founding CSI, Mr. Verhoeff was President of Network Innovations Inc., a private corporation engaged in selling telecommunications equipment in Western Canada. He has a Bachelor of Commerce degree from the University of Calgary, and a certificate in telecommunications Management from Calgary's Mount Royal College.

Michael W. Brower
Mr. Brower is the founder and President of Fall Creek Consultants, which provides business strategy consulting services to many large companies in the wireless location industry, including CSI Wireless. Fall Creek also publishes the Wireless Location News e-newsletter. Mr. Brower was Vice President, Marketing and Business Development at Wireless Link until its acquisition by CSI in 2000, after which he was a CSI Vice President until 2001. He has held positions involving wireless telemetry and location-centric applications with Globalstar Mobil Satellite System, Differential Corrections Inc. and Magellan Systems Corp.

Hamid Najafi, PhD
Dr. Najafi is the founder and head of Broadlink Research Inc., a technology consulting firm specializing in wireless communications. Dr. Najafi is a longtime inventor and developer of communications technology, and was CSI Wireless' Chief Technology Officer from 2000 to 2002. He founded Wireless Link and served as its President and CEO until the company was acquired by CSI Wireless in 2000. Dr. Nafafi continues to provide strategic and technical consulting services to CSI Wireless. Dr. Najafi has held senior management positions at TransTech International Corp., Advanced Micro Devices and PMC-Sierra Inc. He has a Doctorate in Electrical Engineering from Stanford University.

Board Members - Unrelated

Michael J. Lang (Chairman)
Mr. Lang is Chairman of Stonebridge Merchant Capital Corp. and a director of several public companies. He holds Bachelor of Science and MBA degrees from the University of Alberta.

Paul L. Camwell, PhD
Dr. Camwell is Vice President and Chief Technology Officer for Extreme Engineering Limited. A former Industrial Technical Advisor to NRC/TRLabs, he has held senior management positions in the Scientific Civil Service (UK), at NovAtel Communications and Ryan Energy. Dr. Camwell is a professional engineer practicing in Alberta and is qualified as a physicist and electronic engineer. He graduated with a BSc and PhD in solid state physics from the University of Warwick, UK.

Brian J. Hamilton
Mr. Hamilton is a financial consultant and former Executive Vice President and Chief Financial Officer for CSI Wireless. He has served as a senior financial officer for several financial institutions, including Paramount Life Insurance Co., ParaCorp Inc. and Canadian Commercial Bank. Mr. Hamilton is a Chartered Accountant and Certified Financial Analyst, and has a Bachelor of Commerce degree (Honours) from the University of Manitoba.

Howard W. Yenke
Mr. Yenke is a retired executive and entrepreneur who amassed an impressive range of corporate leadership experience during his more than 40-year business career. He was CEO of Casino Data Systems; President and CEO of Silent Systems Inc.; President, CEO and Director of LANart Corporation; President and CEO of Enterprise Development Corporation; President, CEO and Director of Technology Deployment Holdings Company Inc.; President, CEO and Director of ARCO Computer Products Company; and President and CEO of Boca Research Inc. Mr. Yenke also held a variety of increasingly senior management and executive positions during 25 years with IBM Corporation.

For more information concerning CSI Wireless' corporate governance practices, including detailed responses to each of the Toronto Stock Exchange's Corporate Governance Guidelines, read CSI's 2003 Management Proxy Circular.

Management's Discussion & Analysis

of Financial Condition and Results of Operations

The following discussion and analysis is effective as of March 19, 2004 and should be read together with our audited annual consolidated financial statements and the accompanying notes. Additional information related to CSI Wireless can be obtained from the System for Electronic Document Analysis and Retrieval ("SEDAR") on the Internet at www.sedar.com.

Overview

CSI Wireless Inc. ("CSI" or "the Company") designs and manufactures innovative, cost-effective, Wireless and GPS products for mobile and fixed applications in the consumer, agriculture, marine, automotive and other markets. Through the integration of Wireless and GPS technologies, CSI serves several emerging high-growth markets including precision guidance in agriculture, consumer-based fixed wireless telephones and commercial and consumer telematics.

CSI carries out its operations through two operating units: the Wireless Business Unit and the GPS Business Unit. The Wireless Business Unit develops, manufactures and sells products in two key product lines: fixed wireless telephones and telematics products. The GPS Business Unit develops, manufactures and sells products in four primary product lines: ground agricultural guidance products, aerial agricultural guidance products, marine products and GIS/other products.

Economic and Market Trends

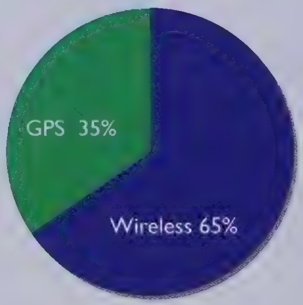
During 2003, CSI's revenues and income were negatively impacted by the strengthening of the Canadian dollar relative to the US dollar. The average foreign exchange rate for 2003 declined by 12% relative to the average rate for 2002. As a result of these movements, the Company's revenues, which are substantially all denominated in US dollars, were lower than they would have been if the foreign exchange rate had remained at 2002 levels. Further, because a large component of the Company's costs are denominated in Canadian dollars, net income was lower than it would have been had foreign exchange rates not changed.

GSM wireless technology ("Global System for Mobile Communication") is the world's most widely deployed wireless platform, representing over 72% of the global wireless capacity. The number of GSM wireless subscribers is over one billion, and the CEO of Nokia recently predicted that there will be 2 billion GSM subscribers by 2008 and 4 billion by 2015. Currently, CSI is developing a new fixed wireless telephone and a new version of its Asset-Link™ product family that will both operate on the GSM networks. The introduction of these products will dramatically expand the addressable market for the Company's products in 2004 and beyond.

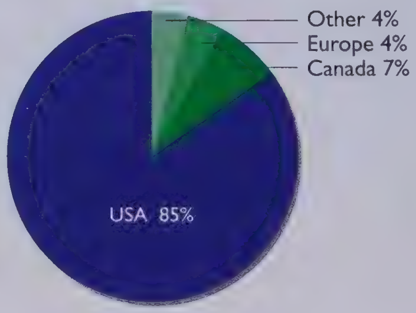
Following severe drought conditions in many areas of North America in 2002, agricultural markets improved during 2003. According to the Association of Equipment Manufacturers, farm wheel tractor sales improved by over 20% in 2003, relative to 2002, reflecting improving market conditions. CSI believes that these trends will enhance sales of precision agriculture products in 2004.

Certain statements in Management's Discussion and Analysis, other than statements of historical fact, are forward-looking in nature and involve various risks and uncertainties. These can include, without limitations, statements concerning possible or assumed future results of operations of the Company preceded by, followed by or that include words and phrases such as "believes", "plans", "intends", "expects", "anticipates", "estimates" or similar expressions. Forward-looking statements are not guarantees of future performance. They involve risks, uncertainties and assumptions related to all aspects of the GPS and Wireless industries and the global economy. As a result, the Company's actual results may differ materially from those anticipated in the forward-looking statements and there can be no assurance that such statements will prove to be accurate. Factors that may cause such differences include, but are not limited to, those set forth under the section labeled "Business Risks". The Company assumes no obligation to update forward-looking statements should circumstances or Management's estimates or opinions change.

Revenue by Business Unit



Revenue by Geographic Region



Results of Operations
Year ended December 31, 2003 versus Years ended December 31, 2002 and 2001

	Years ended December 31		
	2003	2002 (audited)	2001
Revenue	$ 71,046	$ 54,136	$ 40,961
Gross margin	18,761	15,898	13,114
Research & development	7,017	8,049	8,142
Selling	4,101	4,344	4,236
General & administrative	4,294	4,876	5,119
Depreciation & amortization	1,154	1,150	1,256
Amortization of goodwill	-	-	2,128
Operating expenses	16,566	18,419	20,881
Earnings (loss) before the following	2,195	(2,521)	(7,767)
Interest and foreign exchange	886	1,014	1,235
Preferred shares redemption premium	223	322	-
	1,086	(3,857)	(9,002)
Loss from arbitration	1,479	-	-
Restructuring costs	160	-	-
Net income (loss) for the period	$ (553)	$ (3,857)	$ (9,002)
Net income (loss) per share, basic and diluted	$ (0.02)	$ (0.20)	$ (0.39)*

** before goodwill amortization*

	As at December 31		
	2003	2002 (audited)	2001
Total assets	$ 41,017	$ 40,737	$ 39,525
Long-term debt	762	5,216	5,236

Revenues

For the year ended December 31, 2003, the Company achieved record revenues of $71 million, representing an increase of 31% from $54.1 million in 2002. The increase was driven primarily by sales of the Company's Motorola-branded fixed wireless telephone as 2003 was the first full year of sales of this product line, which CSI first began shipping in the third quarter of 2002. Offsetting this increase was the strengthening of the Canadian dollar, which had a significant negative impact on revenues. Revenues were approximately $8 million lower than what would have been reported if the foreign exchange rates had remained unchanged from 2002.

Revenues for the Wireless Business Unit increased by 57% to $45.8 million from $29.2 million in 2002. This increase was driven by shipments of the fixed wireless telephone. The Company's GPS Business Unit reported revenue of $25.3 million versus $25.0 million in 2002. Underlying growth in US dollar revenues in the ground guidance and marine markets was largely offset by the strengthening of the Canadian dollar during the year.

Gross Margins

The Company reported gross margins of $18.8 million in the year, an increase of 18% relative to 2002. Gross margins, as a percentage of revenue, were 26.4% in 2003, a decrease from 29.4% in 2002. This was a result of a greater weighting of Wireless Unit product sales in 2003 versus 2002 and due to the impact of foreign currency changes on GPS product margins, which are manufactured in the Company's facility in Canada. Although Wireless product margins were lower than the gross margins realized on GPS products, the Company realized significant improvement in its Wireless product margins during the year, increasing them from 12% in the first quarter to 20% in each of the third and fourth quarters.

Expenses

Expenses declined by 10% during the year to $16.6 million from $18.4 million in 2002, despite an increase in revenues of 31% during the year. Expenses were 23% of revenue in 2003 versus 33% in 2002. This decrease was a result of strong cost management and the impact of foreign currency changes. CSI has offices in Scottsdale, Arizona and Milpitas, California which primarily employ staff involved in research and development, but which also give rise to US dollar-denominated selling expenses and general & administrative expenses.

Research and Development Expenses

The Company has maintained a concentrated focus on new product engineering, investing $7.0 million in research and development in 2003, as compared with $8.0 million during 2002. Research and development spending is carefully focused to maintain and grow the market position of the Company with an orientation towards products and markets for which customers have been identified. During 2003, some of the Company's key research and development projects included: TDMA fixed wireless telephone cost reductions, GSM fixed wireless telephone development, GSM Asset-Link product development, the eDrive auto-steering product, the Vector heading sensor, the AerialACE automated flow control product, and the LiteStar II lightbar and display screen.

Many of the research and development costs incurred in Canada qualify for scientific research and experimental development income tax treatment. This includes the elective deferral of research and development expenses and the eligibility for such expenses to earn investment tax credits. Research and development costs incurred in the United States also qualify for tax credits in certain circumstances.

Selling and General & Administrative Expenses

Selling expenses of $4.1 million for 2003 declined slightly from $4.3 million in 2002 despite the increase in revenues during the year. The cost reduction was primarily related to foreign currency movements.

General & administrative expenses decreased by 12% from $4.9 million in 2002 to $4.3 million in 2003. This reduction was a result of restructuring and efficiency measures put in place by management during 2003 and the impact of foreign currency movements in the year.

Depreciation and Amortization

Depreciation and amortization was $1.2 million in 2003, unchanged from the prior year.

Effective January 1, 2002 the Company adopted the newly issued accounting standard for goodwill and other intangible assets (CICA HB 3062), which requires that goodwill not be amortized but rather be assessed for impairment annually. At December 31, 2003 the goodwill carrying value was assessed and it was determined that there was no impairment.

Preferred Shares Redemption Premium

The preferred shares redemption premium for 2003 was $223 thousand, a decrease from $322 thousand in 2002. This premium will be payable by CSI to the preferred shareholder at the time of retraction, redemption, repurchase or conversion of the preferred shares, which were issued as contingent consideration relating to the acquisition of the business assets of Satloc, Inc. in 1999. The preferred shares accrue this premium at the rate of 10% per year, compounded annually upon the US dollar value of the shares. The final issuance of 150,000 preferred shares took place effective January 1, 2004. The preferred shares become retractable by the holder in 2004 and CSI anticipates that the shares will be repurchased for cash during the first half of 2004.

Interest and Foreign Exchange

Interest expense of $678 thousand in 2003 was down by $338 thousand from 2002 due primarily to reductions in the long-term debt during the year.

The Company realized a foreign exchange translation loss of $206 thousand during 2003 versus a small gain of $1 thousand in 2002. This translation loss results from the strengthening of the Canadian dollar during the year.

The strengthening Canadian dollar also impacted the reported amount of revenues and expenses in each category reported in the Consolidated Statement of Operations and Deficit where a component of the category is denominated in US dollars. The Company estimates that if the 2003 financial results were translated at 2002 foreign exchange rates, revenues would have been $8 million higher than reported, and earnings would have been approximately $1.7 million higher than reported.

Income Taxes

For the year ended December 31, 2003, the Company had tax losses and future tax deductions in each legal entity. In Canada, CSI Wireless Inc. has tax deductions and loss carry-forwards of $6.0 million that can be used to reduce taxable income in future years, as well as investment tax credits in the amount of $1.4 million that can be used to reduce Canadian federal taxes otherwise payable in future years.

The Company's US operating subsidiaries, CSI Wireless LLC and Satloc LLC, file as a combined entity for U.S. federal tax purposes. In this combined filing, the Company has cumulative net operating losses of US$17.8 million, additional tax deductions of US$3.6 million that can be used to reduce taxable income in future years, and US$1.4 million of general business credits that can be used to reduce federal taxes otherwise payable in future years.

Loss from Arbitration and Restructuring Costs

During 2003, the Company realized certain costs that are not expected by management to be recurring. In the third quarter of the year, CSI announced that it had been denied an arbitration claim against a previous customer for an alleged breach of a product development and supply agreement. The total amount of the loss related to this item was $1.5 million, consisting of legal fees, arbitration panel costs, expert witness costs and a write-off of inventory. During the year, the Company also announced that it had implemented a restructuring of management in response to the growth that has been achieved by the Company, which gave rise to costs of $160 thousand.

Earnings

Prior to the deduction of the arbitration and restructuring costs, the Company realized earnings of $1.1 million, an improvement of $5.0 million compared to a loss of $3.9 million in 2002. This improvement was a result of increased revenues and margins and a reduction in operating expenses.[1]

CSI realized a net loss for 2003, after deduction of the arbitration and restructuring costs, of $553 thousand or ($0.02) per common share, an improvement of $3.3 million from the loss realized in 2002 of $3.9 million, or ($0.20) per common share.

Summary of Quarterly Results

For the Quarter Ended	Mar 31 2002	Jun 30 2002	Sep 30 2002	Dec 31 2002	Mar 31 2003	Jun 30 2003	Sep 30 2003	Dec 31 2003
Revenue	$13,958	$10,761	$ 8,784	$20,633	$24,070	$21,895	$15,134	$ 9,948
Gross margin	5,494	4,733	2,269	3,403	5,140	5,227	4,839	3,555
Expenses								
Research & development	1,912	2,187	2,207	1,743	1,898	1,795	1,592	1,732
Selling	1,007	1,049	1,150	1,138	1,001	1,057	1,003	1,039
General & administrative	1,044	1,364	1,255	1,213	1,180	1,184	980	952
Depreciation & amortization	284	272	294	301	334	235	288	296
	4,247	4,872	4,906	4,395	4,413	4,271	3,863	4,019
Earnings (loss) before the following	1,247	(139)	(2,637)	(992)	727	956	976	(464)
Interest on long-term debt	313	229	163	312	198	171	141	168
Foreign exchange (gain) loss	(116)	210	(84)	(13)	211	(86)	42	52
Premium on preferred shares	-	-	-	322	46	74	51	40
	1,050	(578)	(2,716)	(1,613)	272	797	742	(724)
Loss (recovery) from arbitration	-	-	-	-	168	292	1,154	(135)
Restructuring costs	-	-	-	-	-	-	160	-
Net income (loss) for the period	$ 1,050	$ (578)	$(2,716)	$(1,613)	$ 104	$ 505	$ (572)	$ (589)
Net income (loss) per common share*	$ 0.06	$ (0.03)	$ (0.14)	$ (0.08)	$ 0.01	$ 0.02	$ (0.02)	$ (0.02)

* *Calculated using quarterly weighted averages*

Quarterly revenues have varied during the past eight quarters due to the following factors:

1. The GPS Business Unit products have historically been impacted by seasonal factors with the first quarter being the strongest each year, and the third quarter being the lowest revenue quarter. Management has undertaken initiatives focused on mitigating this seasonal pattern.

2. The Company's fixed wireless telephone was launched during the third quarter of 2002, and began to ship in volume in the fourth quarter of 2002. The fourth quarter of 2002 was a very high-volume period as a result of the ramp-up in purchasing by the end customer. During 2003, the Company announced that inventory issues in the distribution channel would reduce volumes over the last two quarters of 2003. These inventory issues have been resolved, and the Company announced new purchase orders that would result in improving volumes in 2004.

3. As a result of engineering design changes, manufacturing process revisions, supply chain efficiencies, and a change in certain elements of our business relationship, CSI has been able to generate reductions in the cost of manufacturing the fixed wireless telephone. These cost reductions have improved the gross margins the Company earns on the product, but also resulted in reductions in the US dollar sales prices during 2003. While this had a downward impact on revenues, these price reductions will make the telephone more affordable to end users, and it is anticipated this will generate additional product demand for 2004 and beyond.

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1. The Company recognizes that earnings before one-time charges is not a standard measure under Canadian generally accepted accounting principles, and may not be comparable to similar measures presented by other public companies. Management believes that the measure of earnings before arbitration and restructuring costs is useful disclosure as it is comparable to earnings from prior and future years.

Quarter Ended December 31, 2003 versus Quarter Ended December 31, 2002

Revenues

Revenues in the fourth quarter of 2003 were $9.9 million, a reduction from $20.6 million in the fourth quarter of 2002. This decline was entirely related to fixed wireless telephone revenues. On a comparative basis, the fourth quarter of 2002 was unusually strong due to the initial ramp-up of sales of the Company's Motorola-branded fixed wireless telephone. Conversely in the fourth quarter of 2003, fixed wireless telephone volumes declined due to the draw-down of inventory that had built up in the Mexican distribution channel. As announced by the Company during the first quarter of 2004, distribution channel inventories have been depleted and significant new orders have been received for 2004. Because the fixed wireless telephone market tends to demonstrate inconsistent quarterly purchasing patterns, management believes that year-over-year quarterly comparisons are not indicative of the Company's longer-term trend and the positive direction of CSI's annual growth in revenues and earnings.

Gross Margins

Gross margins in the fourth quarter of 2003 were 35.5% or $3.6 million, an increase compared to margins of 16.5% and $3.4 million in 2002, notwithstanding the decline in revenues. The improvement in gross margins resulted from significant increases in the gross margins earned on the Company's Wireless products, which improved from 11% in the fourth quarter of 2002 to 20% in the fourth quarter of 2003. These changes arose primarily from the transfer of the manufacturing of the fixed wireless telephone from Thailand to Mexico, which took place during the fourth quarter of 2002 and the first quarter of 2003, together with design cost reductions which were put in place during the year. The GPS Business Unit also showed an improvement in margins, increasing to 48% in the fourth quarter of 2003 compared to 45% in the fourth quarter of 2002, primarily related to product mix.

Expenses

Expenses of $4.0 million in the fourth quarter were down 8.5% relative to $4.4 million in the fourth quarter of 2002. These reductions resulted from cost reduction initiatives and from the impact of foreign currency movements during the year. Cost reductions were partially offset by an increase in certain product development costs incurred during the fourth quarter.

Preferred Shares Redemption Premium

The preferred shares redemption premium declined from $322 thousand in the fourth quarter of 2002 to $40 thousand in 2003. A cumulative adjustment to record the premium accrued to that point in time was booked during the fourth quarter of 2002. In 2003, the redemption premium was accrued in each quarter.

Interest Expense

Interest expense declined to $168 thousand in the fourth quarter of 2003 from $312 thousand in the fourth quarter of 2002 due to a reduction in the long-term debt during the year.

Loss from Arbitration

During the fourth quarter of 2003, the Company negotiated reductions in certain of the costs incurred in connection with the arbitration loss as previously described. This resulted in a recovery of $135 thousand during the quarter. This activity has been closed, and management expects no further costs or recoveries related thereto.

Earnings

In the fourth quarter of 2003, the Company incurred a loss of $589 thousand dollars, or ($0.02) per share, an improvement of $1.0 million compared to a loss of $1.6 million and ($0.08) per share in the fourth quarter of 2002. This improvement relates primarily to the improvement in gross margins realized in both the Wireless and GPS Business Units compared to the fourth quarter of 2002.

Liquidity and Capital Resources

Working Capital

CSI has a bank operating line of credit with a maximum limit of $6,000,000, on which $2.6 million was outstanding at the end of December 2003. The available borrowing limit under this operating line is determined based on trade receivables and inventory levels. In November 2003, the bank increased the interest rate of this operating line of credit to prime plus 3.5%. The Corporation has entered into a general security agreement with its bank to secure such indebtedness.

Inventories consisted of components, work in process and finished goods related to the products manufactured and sold by the Company. Inventory levels decreased from $9.3 million at December 31, 2002 to $8.2 million at the end of December 2003, despite a 31% increase in sales during the year. The Company continues to focus on optimizing its inventory levels.

Long-term debt declined to $762 thousand at December 31, 2003 from $4.1 million at December 31, 2002. The balance of long-term debt was paid out by CSI in March 2004.

Share Capital

At March 19, 2004, there were 27,631,470 common shares outstanding, prior to the exercise of the special warrants issued in March 2004 and described more fully below. There were also 1,511,000 first preferred shares outstanding.

In March 2003, the Company repurchased 700 thousand common shares from a director for cash consideration of $1.2 million. As the paid-up capital of these shares exceeded the proceeds on the purchase, which were based on the fair market value of the shares, the difference of $156 thousand was credited to contributed surplus.

In August 2003, the Company completed a private placement resulting in the issuance of 3.3 million shares for gross proceeds of $5.3 million. In addition to the common shares issued, the Company also issued 3.3 million common share purchase warrants with an exercise price of $2.00 per share that expire in August 2005.

The Company also issued warrants to the Agents on the transaction providing for the purchase of 430 thousand common shares, as described more fully in note 8 of the consolidated financial statements.

In November and December, warrant-holders exercised warrants resulting in proceeds to the Company of $3.1 million.

In March 2004, the Company completed a private placement of 5 million special warrants for gross proceeds of $16.25 million. Each special warrant entitles the holder to acquire one common share for no additional proceeds, and will be exercised following the clearance of a final prospectus, expected in April 2004. The Company has used a portion of these funds to pay out the bank operating line and long-term debt. In addition, it is expected that the preferred shares will be repurchased by CSI in the first half of 2004. The remainder of the proceeds will be used for working capital, resulting in a significant strengthening of the Company's financial condition and liquidity. The repayment of debt will result in a reduction in interest expense in 2004 and a positive cash balance will also result in the generation of interest income.

Cash Flow

Prior to the change in working capital, CSI generated $500 thousand of positive cash flow in 2003, an improvement of $2.8 million compared to 2002, arising from the improvement in profitability during the year. Net proceeds from common shares issued in 2003 were $7.9 million. Of these funds, $6.4 million of cash was used to repay long-term debt, capital lease obligations and to reduce the balance owing on the bank operating line of credit.

Contractual Obligations

Effective December 31, 2003	Payments Due by Period				
	Total	Less than 1 year	1 – 3 Years	4 – 5 Years	After 5 Years
Long-term debt	$ 762	$ 762	$ -	$ -	$ -
Capital lease obligations	545	157	388	-	-
Office & equipment operating leases	6,736	1,299	3,387	1,190	860
Total contractual obligations	$ 8,043	$ 2,218	$ 3,775	$ 1,190	$ 860

(in thousands)

Critical Accounting Policies and Estimates

CSI prepares its consolidated financial statements in accordance with accounting principles generally accepted in Canada. The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. These estimates are based on management's historical experience and various other assumptions that are believed by management to be reasonable under the circumstances. Such assumptions are evaluated on an ongoing basis and form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results could differ from these estimates.

The following critical accounting policies affect the more significant estimates and assumptions used in preparing the consolidated financial statements:

1. The Company maintains an allowance for doubtful accounts for estimated losses that may occur if customers are unable to pay trade balances owing to CSI. This allowance is determined based on a review of specific customers, historical experience and economic circumstances.

2. Inventories are carried at the lower of cost and market value. Provisions for excess or obsolete inventory are recorded based on an assessment of the estimated market value of component, work in process, and finished goods inventory.

3. The Company performs the required test for goodwill impairment annually in the fourth quarter, or more frequently if events or changes in circumstances indicate that the asset might be impaired. In performing the required test, management estimates the future cash-flows of each of its reporting units.

4. The Company evaluates its future tax assets and records a valuation allowance where the recovery of future tax does not meet the required level of certainty. At December 31, 2003, valuation allowances are provided for the full amount of future tax assets.

5. CSI accrues provisions for product warranty expenses for the repair or replacement of defective products. The accrual is based on an assessment of historical experience. If the Company suffers a decrease in the quality of its products, an increase in the accrual may be required.

Effective January 1, 2004, the Company retroactively adopted new Canadian accounting standards that apply the fair value method to all stock-based payments and awards. Under the fair value method, the Company calculates the fair value of stock option grants or direct awards of stock and records that fair value as compensation expense over the vesting period of those grants and awards.

Business and Market Risks

The nature of the Company's business gives rise to certain risks that may impact future financial results. The Company identifies the most significant risks to be:

1. In 2003, CSI incurred a financial loss after deducting the costs associated with the arbitration loss and the restructuring. Although the Company currently expects to have positive earnings in 2004, it is possible that losses will occur in any of the four quarters. If the Company fails to execute on its current contracts, or if current customers significantly reduce their purchases, the 2004 projected earnings could in fact be a loss which could be substantial.

2. For the year ended December 31, 2003, the Company derived 85% (81% in 2002) of its revenue from customers located in the United States. Sales in other countries are also predominately transacted in US dollars. As revenues are reported by the Company in Canadian dollars, the Company is exposed to risk associated with US and Canadian dollar currency fluctuations. These risks are mitigated to some extent by purchasing most inventories, and incurring other costs and many services in US dollars. However, a strengthening in the Canadian dollar relative to the US dollar results in lower revenues for the Company, as was the case in 2003. To date the Company has not entered into derivatives contracts to manage its foreign currency exposure. In the future, consideration may be given to entering into such contracts to manage its exposure to foreign currency fluctuations. As the Company expands with increased sales into Europe and other countries, it is expected that it may be necessary to transact sales in foreign currencies other than US dollars, thus exposing the Company to additional foreign currency risk.

3. General economic and financial market conditions appear to have improved for 2004. However, negative changes in market and business environments, or adverse geopolitical events could have a negative impact on the Company's future performance.

4. In the past, the Company's agricultural product sales have been affected by drought conditions in North America that have negatively impacted the agriculture market, resulting in lower sales of agriculture guidance products. Should drought conditions arise in 2004, the Company could be faced with lower-than-expected revenues in these market areas.

5. Many of CSI's competitors currently have very strong financial, technical, production, and marketing resources. This may enable them to respond more quickly to market demands, and to better implement their technological developments.

6. Future revenues are subject to many factors beyond the Company's control. Examples include the liquidity and business plan execution of customers, general industry conditions, and the rate of acceptance of new technologies in the marketplace.

7. CSI is reliant upon certain key suppliers for raw materials, components, and external manufacturing. No assurances can be given that the Company will not experience delays or other difficulties in obtaining materials critical in the completion of its products.

8. The Company has undergone significant growth in its sales and its customer base. As a result, the Company has an increasing exposure to credit risk related to trade balances owing from customers. In the normal course of business, the Company monitors the financial condition of its customers and reviews the credit history of new customers to establish credit limits. The Company establishes an allowance for doubtful accounts that corresponds to the credit risk of its customers, historical trends and economic circumstances. Losses could be realized by the Company if customers default on their balances owing.

Management's Responsibility for Financial Reporting

Management of CSI Wireless Inc. is responsible for the preparation and the presentation of the consolidated financial statements and related information published in this annual report. These statements were prepared in accordance with generally accepted accounting principles in Canada.

The preparation of the financial information necessarily requires the use of some estimates and judgements, such as selection and application of accounting principles appropriate to the circumstances and with due consideration to materiality. Where appropriate, management seeks and receives guidance in these matters from external legal, accounting and other advisors.

To ensure the reliability of the financial statements, management relies on the Company's system of internal controls. The accounting procedures and related systems of internal control are designed to provide reasonable assurance that its assets are safeguarded and its financial records are reliable.

Management continuously monitors and adjusts the Company's internal controls and management information systems to accommodate a changing environment while ensuring financial integrity.

Management also recognizes its responsibility for ensuring that the Company, at all times, conducts its affairs in an ethical manner, conforming to all applicable laws and regulations, and in accordance with the highest standards of personal and corporate conduct.

Calgary, Canada

C. Olson

Cameron Olson
Chief Financial Officer
March 4, 2004

S. A. Verhoeff

Stephen Verhoeff
President & Chief Executive Officer
March 4, 2004

Auditors' Report to the Shareholders

We have audited the consolidated balance sheets of CSI Wireless Inc. as at December 31, 2003 and 2002 and the consolidated statements of operations and deficit and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2003 and 2002 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants
Calgary, Canada
March 4, 2004

Consolidated Balance Sheets

December 31, 2003 and 2002

		2003	2002
Assets			
Current Assets:			
Accounts receivable	$	9,606,485	$ 9,568,102
Inventories		8,174,568	9,251,148
Prepaid expenses and deposits		422,604	335,942
		18,203,657	19,155,192
Capital assets (note 3)		4,188,697	3,510,208
Goodwill		18,624,676	18,071,676
	$	41,017,030	$ 40,737,076
Liabilities and Shareholders' Equity			
Current liabilities:			
Bank indebtedness (note 4)	$	2,557,939	$ 4,031,400
Accounts payable and accrued liabilities		8,041,181	10,107,646
Current portion of capital leases		156,904	–
Current portion of senior long-term debt (note 6)		761,672	1,905,852
Current portion of other long-term debt (note 5)		–	701,260
Preferred shares (note 7)		2,242,154	–
		13,759,850	16,746,158
Capital lease obligations		387,674	–
Senior long-term debt (note 6)		–	2,170,408
Other long-term debt (note 5)		–	438,208
Preferred shares (note 7)		–	1,855,244
Shareholders' equity:			
Common shares (note 8)		49,551,086	41,812,078
Contributed surplus		156,049	–
Deficit		(22,837,629)	(22,285,020)
		26,869,506	19,527,058
Commitments (note 13)			
Subsequent event (note 15)			
	$	41,017,030	$ 40,737,076

See accompanying notes to consolidated financial statements.

Approved by the Board:

Michael Lang
Chairman & Director

Paul Camwell
Director

Consolidated Statements of Operations and Deficit

Years ended December 31, 2003 and 2002

	2003	2002
Sales	$ 71,046,009	$ 54,136,246
Cost of sales	52,285,100	38,238,297
	18,760,909	15,897,949
Expenses:		
Research and development	7,017,356	8,049,124
Selling	4,101,087	4,344,215
General and administrative	4,294,216	4,875,380
Depreciation and amortization	1,154,063	1,149,744
	16,566,722	18,418,463
Earnings (loss) before undernoted	2,194,187	(2,520,514)
Redemption premium on preferred shares (note 7)	222,971	322,144
Foreign exchange loss (gain)	206,192	(1,376)
Interest expense	678,343	1,015,918
	1,086,681	(3,857,200)
Loss from unsuccessful arbitration (note 10)	1,479,290	–
Restructuring costs	160,000	–
Net loss	(552,609)	(3,857,200)
Deficit, beginning of year	(22,285,020)	(18,427,820)
Deficit, end of year	$ (22,837,629)	$ (22,285,020)
Loss per common share, basic and diluted	$ (0.02)	$ (0.20)

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Years ended December 31, 2003 and 2002

	2003	2002
Cash flows from (used in) operating activities:		
Net loss	$ (552,609)	$ (3,857,200)
Items not involving cash:		
Depreciation and amortization	1,154,063	1,149,744
Redemption premium on preferred shares	222,971	322,144
Foreign exchange gain on preferred shares	(389,061)	–
Options granted to non-employees	23,530	54,781
	458,894	(2,330,531)
Change in non-cash operating working capital:		
Accounts receivable	(38,383)	(1,766,170)
Inventories	1,076,580	149,036
Prepaid expenses and deposits	(86,662)	10,985
Accounts payable and accrued liabilities	(2,066,465)	2,207,477
	(656,036)	(1,729,203)
Cash flows from (used in) financing activities:		
Increase (decrease) in bank indebtedness	(1,473,461)	959,196
Senior long-term debt	(3,314,588)	(1,159,457)
Other long-term debt	(1,139,468)	(2,353,542)
Capital leases	(435,680)	–
Issue of share capital, net of share issue costs	7,871,527	5,666,824
Repurchase of common shares	(1,184,700)	–
	323,630	3,113,021
Cash flows used in investing activities:		
Purchase of capital assets	(852,294)	(1,383,818)
Repayment of loan from director	1,184,700	–
	332,406	(1,383,818)
Decrease in cash position	–	–
Cash and cash equivalents, beginning of year	–	–
Cash and cash equivalents, end of year	$ –	$ –
Supplemental disclosure:		
Interest paid	$ 715,364	$ 900,027

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Years ended December 31, 2003 and 2002

CSI Wireless Inc. (the "Company") is incorporated under the laws of the Province of Alberta. The Company is actively involved in the design, manufacture and marketing of advanced wireless and precision global positioning system ("GPS") products and technologies.

1. Significant accounting policies:

(a) Principles of consolidation:

These consolidated financial statements include the accounts of the Company and its subsidiaries, all of which are wholly-owned.

(b) Revenue recognition:

The Company generates revenue primarily from the sales of equipment, from royalty and licensing revenue and from the provision of engineering services.

Revenues from the sale of equipment are recognized upon shipment and when all significant contractual obligations have been satisfied and collection is reasonably assured. Accruals for warranty costs, sales returns and other allowances at the time of shipment are based upon contract terms and anticipated claims.

Revenues from licensing and royalties derived from the Company's technology is recognized when all material services and conditions relating to the licenses and royalties have been satisfied and collection is reasonably assured.

Revenues from non-recurring engineering services are recognized as specific contract milestones are met. The attainment of milestones approximates actual performance.

(c) Inventories:

Inventories are valued at the lower of cost and market. Cost is determined on an average-cost basis and market is determined at net realizable value for finished goods and work in process and replacement cost for component parts.

(d) Capital assets:

Capital assets are recorded at cost. Depreciation is provided at the following annual rates:

Assets	Method	Rate
Computer equipment and software	declining balance	30%
Office and production equipment	declining balance	20% - 30%
Leasehold improvements	straight-line	5 years
Licenses and other assets	straight-line	3 to 10 years

Depreciation is charged from the date of acquisition of an asset.

(e) Deferred development costs:

The Company is actively engaged in developing new technology and products. Development costs related to a specific product or process that is proven to be technically and economically feasible are capitalized. Deferred development costs are amortized on a straight-line basis against future revenues over the period of expected benefit. If, at any time, the benefits of any costs capitalized are determined to no longer be of any value, such costs are written off in full. Any incentives or grants, received or receivable, which relate to the development activities of the Company are deducted from the capitalized amount in the period. No amounts have been capitalized at December 31, 2003.

(f) Research costs:

Ongoing research costs, net of related government incentives and grants, are charged to earnings in the current period. No government incentives or grants were received in the year.

1. Significant accounting policies continued:

(g) Goodwill:

Goodwill is the residual amount that results when the purchase price of an acquired business exceeds the sum of the amounts allocated to the assets acquired, less liabilities assumed, based on their fair values. Goodwill is allocated, as of the date of the business combination, to the Company's reporting segments that are expected to benefit from the business combination.

Goodwill is not amortized, but is tested for impairment annually in the fourth quarter, or more frequently if events or changes in circumstances indicate that the asset might be impaired. The impairment test is carried out in two steps. In the first step, the carrying amount of the reporting segment is compared with its fair value. When the fair value of a reporting segment exceeds its carrying amount, goodwill of the reporting segment is considered not to be impaired and the second step of the impairment test is unnecessary. The second step is carried out when the carrying amount of a reporting segment exceeds its fair value, in which case the implied fair value of the reporting segment's goodwill is compared with its carrying amount to measure the amount of the impairment loss, if any. The implied fair value of goodwill is determined in the same manner as the value of goodwill is determined in a business combination described in the preceding paragraph, using the fair value of the reporting segment as if it was the purchase price. When the carrying amount of a reporting segment's goodwill exceeds the implied fair value of the goodwill, an impairment loss is recognized in an amount equal to the excess. As a result of the current year's assessment, no impairment loss has been recognized.

(h) Use of estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that effect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(i) Per share amounts:

The calculation of basic loss per common share is based on the weighted average number of commons shares outstanding of 23,187,423 (23,571,097 diluted) and 19,143,057 (20,199,790 diluted) for the years ended December 31, 2003 and 2002 respectively. The diluted loss per share calculation uses the treasury stock method of determination and has not been presented separately as the result is anti-dilutive.

(j) Foreign currency translation:

Foreign currency balances of the Company's foreign subsidiaries, which are considered to be integrated, are translated on the following basis:

- monetary assets and liabilities are translated at the rates of exchange prevailing at the balance sheet dates.
- non-monetary assets, liabilities and related depreciation expense are translated at historical rates.
- sales and expenses are translated at the average rate of exchange during the month in which they are recognized.

Any resulting foreign exchange gains and losses are included in earnings.

(k) Stock-based compensation plans:

The Company has two stock-option plans, which are described in note 8(c). Compensation expense is recognized for these plans only when stock options are issued to non-employees. Any consideration paid on the exercise of stock options is credited to share capital.

1. Significant accounting policies continued:

(k) Stock-based compensation plans continued:

Effective January 1, 2004, the Company will retroactively adopt new Canadian accounting standards that will apply the fair value method to all stock-based payments and awards. Under the fair value method, the Company will calculate the fair value of stock option grants or direct awards of stock and record that fair value as compensation expense over the vesting period of those grants and awards.

(l) Income taxes:

The Company follows the asset and liability method of accounting for income taxes. Under this method, future income tax assets and future income tax liabilities are recorded based on temporary differences – the difference between the carrying amount of an asset and liability in the consolidated balance sheet and its tax basis. Future income tax assets and future income tax liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to settle. The effect on future income tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the date of substantive enactment.

(m) Comparative figures:

Certain comparative information for 2002 has been restated to conform with 2003's presentation.

2. Change in accounting policies:

Effective January 1, 2002, the Company adopted newly issued accounting standards for stock based compensation. Under this standard, the Company follows the intrinsic value method of accounting for stock options granted to employees and the fair value method for stock options granted to non-employees. The Company discloses the effect of accounting for the stock options awarded to employees under the fair value method (see note 8(d)).

Effective January 1, 2002, the Company adopted newly issued accounting standards for goodwill and other intangible assets. This new standard requires that goodwill not be amortized, but only written down if impaired. In accordance with the new standard, the carrying value of goodwill will be assessed for impairment annually. Prior to the adoption of this accounting standard, goodwill was amortized on a straight-line basis over its estimated useful life.

3. Capital assets:

December 31, 2003	Cost	Accumulated depreciation	Net book value
Computer equipment and software	$ 2,056,000	$ 1,209,979	$ 846,021
Office and production equipment	4,729,213	2,170,231	2,558,982
Leasehold improvements	212,743	44,062	168,681
Licenses and other assets	1,334,133	719,120	615,013
	$ 8,332,089	$ 4,143,392	$ 4,188,697
December 31, 2002			
Computer equipment and software	$ 1,636,994	$ 918,844	$ 718,150
Office and production equipment	3,459,534	1,615,311	1,844,223
Leasehold improvements	306,586	120,459	186,127
Licenses and other assets	1,236,267	474,559	761,708
	$ 6,639,381	$ 3,129,173	$ 3,510,208

Included in capital assets is equipment under capital lease of $1,356,828, and included in depreciation expense is $157,213 related to this equipment.

4. Bank indebtedness:

The Company has an operating line of credit to a maximum amount of $6,000,000 that bears interest at the bank prime rate plus 3.5%. This line of credit is secured by a general security agreement covering all assets of the Company. The amount drawn under the facility was $2,557,939 at December 31, 2003 (December 31, 2002 - $4,031,400).

5. Long-term debt:

On May 15, 2002, the Company entered into an agreement with a third party that manufactures products for the Company to convert US$2,300,000 (Cdn$3,493,010) of current accounts payable into a 2-year long-term note. This debt was secured behind the Company's senior debt, accrued interest at a rate of US prime rate plus 4%, and required monthly interest and principal payments of US$40,500. This debt was repaid in full during the year ended December 31, 2003.

6. Senior long-term debt:

	2003	2002
Loan payable, requiring monthly payments of $111,111 plus interest at the bank's prime rate plus 2.5% per annum, secured by a general security agreement covering all assets of the Company	$ 602,095	$ 2,999,993
Loan payable, requiring monthly payments of $47,709 plus interest at the bank's prime rate plus 1.75% per annum, secured by a general security agreement covering all assets of the Company	159,577	1,079,267
	761,672	4,076,260
Less current portion	761,672	1,905,852
	$ –	$ 2,170,408

7. Preferred shares:

(a) Authorized:

Unlimited number of first preferred shares

Unlimited number of second preferred shares

(b) Issued:

	December 31, 2003		December 31, 2002	
	Number of Shares	Amount	Number of Shares	Amount
Preferred shares issued	1,361,000	$ 2,242,154	1,011,000	$ 1,855,244

As part of a business acquisition in 1999, contingent consideration in the form of a maximum 1,550,000 convertible preferred shares, at US$1.00 per share, is payable to the holder over a five-year period ending January 1, 2004 upon the attainment of annual sales targets. The preferred shares have a redemption premium of 10% per annum; however, no redemption premium will be paid until the preferred shares are converted or redeemed.

7. Preferred shares continued:

The terms of the preferred shares allow the holder of the shares to demand retraction in the form of either common shares or cash at any time after April 1, 2004, and accordingly the shares are shown as a current liability as at December 31, 2003. On January 1, 2004, 150,000 preferred shares were issued as the defined performance criteria was met for 2003. This represents the final performance-related issuance of preferred shares in accordance with the related business acquisition agreement.

8. Common shares:

(a) Authorized:

Unlimited number of common shares

(b) Issued:

	Number of Shares	Amount
Balance, December 31, 2001	18,391,493	$ 37,275,173
Issued on private placement	3,287,309	4,273,502
Issued on exercise of stock options	64,275	52,124
Exercise of share purchase warrants (note 8(e)(i))	705,000	1,868,250
Share issue costs	–	(527,052)
Options granted to non-employees	–	54,781
Loan receivable from director (note 14)	–	(1,184,700)
Balance, December 31, 2002	22,448,077	41,812,078
Loan receivable from director (note 14)	–	1,184,700
Cancelled shares from director (note 14)	(700,000)	(1,340,749)
Issued on exercise of stock options	69,290	81,350
Private placement	3,305,750	5,289,200
Exercise of share purchase warrants (note 8(e)(ii))	1,563,462	2,814,232
Exercise of agents warrants (note 8(f)(i))	230,112	326,760
Share issue costs	–	(827,010)
Options granted to non-employees	–	23,530
Agents options and warrants (note 8(f)(ii))	–	186,995
Balance, December 31, 2003	26,916,691	$ 49,551,086

(c) Stock options:

(i) Stock Option Plan:

The Company has a stock option plan, whereby options to purchase common shares may be issued to directors, officers, employees, key consultants and agents of the Company subject to certain terms and conditions. Stock options granted vest over a period of two to four years and expire at various dates through 2008.

8. Common shares continued:

(c) Stock options continued:

(ii) Wireless Link Acquisition Share Option Plan:

In connection with the Company's acquisition of Wireless Link Corporation in 2000, the Company adopted the Wireless Link Acquisition Share Option Plan and reserved options to purchase common shares of the Company for certain directors, officers, and employees of Wireless Link. The terms of the plan are substantially similar to those set forth in the Stock Option Plan noted above, except that all stock options outstanding under this plan will expire in 2005.

At December 31, 2003, the following stock options are outstanding out of a total of 4,114,999 reserved for issuance:

	2003	2002
Share Option Plan	2,549,616	2,630,399
Wireless Link Plan	235,593	435,593
	2,785,209	3,065,992

Changes in the number of options, with their weighted average exercise prices for both plans combined, are summarized below:

	December 31, 2003		December 31, 2002	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Total options outstanding, beginning of year	3,065,992	$ 2.80	2,973,276	$ 2.89
Granted	965,000	1.62	408,750	1.85
Exercised	(69,289)	1.17	(64,275)	0.80
Cancelled/Expired	(1,176,494)	3.87	(251,759)	2.12
Stock options outstanding, end of year	2,785,209	$ 1.98	3,065,992	$ 2.80
Exercisable at year end	1,733,253	$ 2.15	2,289,638	$ 3.07

	Options Outstanding			Options Exercisable	
Range of Exercise Prices Outstanding	Number outstanding at December 31, 2003	Weighted Average Remaining Contractual Life (months)	Weighted Average Exercise Price	Number Exercisable at December 31, 2003	Weighted Average Exercise Price
$1.01 – 2.00	1,511,521	45	$1.58	560,045	$1.55
2.01 – 3.00	1,263,688	18	2.45	1,163,208	2.44
3.01 – 6.95	10,000	20	3.10	10,000	3.10

8. Common shares continued:

(d) The per share weighted average fair value of stock options granted in 2003 has been estimated at $0.95 (2002 - $1.15) using the Black-Scholes option pricing model with the following weighted average assumptions: zero dividend yield; expected volatility of 70%; risk-free rate of 5%; and expected lives of 5 years. At December 31, 2003, the Company has recorded $23,530 as compensation expense for non-employees who have been granted stock options.

As the Company follows the intrinsic value method of accounting for stock options granted to employees, and all options are granted at an exercise price equal to or greater than the market value at the date of grant, no compensation cost has been recognized for the year ended December 31, 2003. Had compensation costs for stock options granted to employees been determined based on the fair value method, the Company's pro-forma net loss would have been increased by $333,475 to $886,084 and the pro-forma loss per share would have been $0.04 for the year ended December 31, 2003.

(e) Share purchase warrants:

(i) There were 1,576,933 common share purchase warrants outstanding at December 31, 2001 that entitled the holders to acquire 1,576,933 common shares at a price of $3.75 per share. On June 26, 2002, subsequent to amending the terms of the outstanding share purchase warrants, 705,000 warrants were exercised at a price of $2.65 per share for proceeds of $1,868,250. All remaining unexercised share purchase warrants expired on June 27, 2002.

(ii) Pursuant to a private placement completed during November 2002, the Company issued 1,643,655 common share purchase warrants that entitle the holders to acquire 1,643,655 common shares at a price of $1.80 per share, expiring February 23, 2004. 1,563,462 warrants were exercised in 2003 for proceeds of $2,814,232. At December 31, 2003, 80,193 of these common share purchase warrants remain outstanding. Subsequent to December 31, 2003, these warrants were fully exercised.

(iii) Pursuant to a private placement completed during August 2003, the Company issued 3,305,750 common share purchase warrants that entitle the holders to acquire 3,305,750 common shares at a price of $2.00 per share, expiring August 8, 2005. All of these common share purchase warrants remain outstanding at December 31, 2003. Subsequent to year-end, 284,250 of these warrants were exercised.

(f) Agents options:

(i) Pursuant to a private placement completed during November 2002, 230,112 agents options were issued that entitled the agents to acquire one common share and one-half of a warrant for $1.42 expiring on November 21, 2003. During 2003, all of these agents options were exercised. 115,056 warrants were issued to the agents upon exercise of the agents options, all of which remain outstanding at December 31, 2003 and which are exercisable at $1.80 per warrant until February 23, 2004. Subsequent to December 31, 2003, these warrants were fully exercised.

(ii) Pursuant to a private placement completed during August 2003, 214,873 agents options were issued and remain outstanding at December 31, 2003. These agents options entitle the agent to acquire one common share and one warrant for an exercise price of $1.60 per unit, expiring August 8, 2004. Subsequent to year-end, 53,718 of these options were exercised. If all of the agents options are exercised, they will be issued warrants to acquire 214,873 common shares at an exercise price of $2.00 per warrant until August 8, 2005. The fair value of these options and warrants, estimated to be $186,995 using the Black-Scholes option pricing model, has been included in share issue costs at December 31, 2003.

(g) Bankers warrants:

There are 250,000 bankers warrants outstanding as at December 31, 2003 that entitle the Company's bank to purchase 250,000 common shares of the Company at an exercise price of $2.50 per common share. These bankers warrants expire on September 30, 2005.

9. Income taxes:

Income tax expense varies from the amount that would be computed by applying the combined Federal and Provincial income tax rate of 36.74% (2002 – 39.24%) as follows:

	2003	2002
Basic rate of 36.74% (2002 – 39.24%) applied to loss before income tax	$ (203,000)	$ (1,514,000)
Increase (decrease) resulting from:		
Loss for which tax benefit is not recognized	326,000	1,511,000
Other permanent differences	(123,000)	3,000
Income tax expense	$ –	$ –

The components of the Company's net future income tax asset at December 31, 2003, no portion of which has been recorded in these financial statements, are as follows:

	Asset (Liability)		
	Canada	United States	Total
Net operating losses	$ 384,000	$ 9,186,000	$ 9,570,000
Research and development tax pools	999,000	–	999,000
Capital assets	(178,000)	42,000	(136,000)
Share issue costs	408,000	–	408,000
Inventory	–	(52,000)	(52,000)
Goodwill	–	(227,000)	(227,000)
	$ 1,613,000	$ 8,949,000	$ 10,562,000

The net operating loss carry-forwards reflected above expire as follows:

	Net operating losses
United States:	
2019	$ 3,918,000
2020	5,415,000
2021	8,686,000
2022	4,707,000
	$ 22,726,000
Canada:	
2010	$ 1,108,000

The Company has tax credits totaling $1,356,000 in Canada, and $1,417,000 in the United States.

10. Arbitration costs:

In the third quarter of 2003, the Company was denied an arbitration claim against a previous customer for an alleged breach of contract that was initiated by the Company in 2002. Total charges related to the claim were $1,479,000, including legal fees, tribunal hearing charges, inventory write-offs, settlement payouts and other related costs. The arbitration was concluded and finalized in 2003, and as such no further related expenses will be incurred.

11. Segmented information:

(a) Operating segments:

The Company determines the information to report about operating segments based upon the structure in which management has organized the operating segments within the Company for making operating decisions and assessing financial performance.

The Company's chief operating decision-maker is the President and CEO. The President and CEO reviews financial information presented by the Company's two operating segments – the GPS Business Unit and the Wireless Business Unit. The operating segments are defined by the primary technologies incorporated in their product lines.

Years ended December 31:

	GPS Business Unit		Wireless Business Unit		Corporate		Total	
	2003	2002	2003	2002	2003	2002	2003	2002
Sales	$ 25,275,000	$ 24,975,000	$ 45,771,000	$ 29,161,000	$ -	$ -	$ 71,046,000	$ 54,136,000
Interest expense	-	-	-	-	678,000	1,016,000	678,000	1,016,000
Depreciation & amortization	758,000	731,000	396,000	419,000	-	-	1,154,000	1,150,000
Net earnings (loss)	3,982,000	4,977,000	185,000	(5,668,000)	(4,720,000)	(3,166,000)	(553,000)	(3,857,000)
Capital assets & goodwill	7,276,000	5,890,000	15,537,000	15,692,000	-	-	22,813,000	21,582,000
Total assets	19,126,000	14,820,000	21,891,000	25,917,000	-	-	41,017,000	40,737,000
Capital expenditures	712,000	822,000	140,000	562,000	-	-	852,000	1,384,000

(b) Assets and sales by geographic segment:

	Assets		Sales	
	2003	2002	2003	2002
U.S.A.	$ 27,111,000	$ 33,221,000	$ 60,385,000	$ 43,858,000
Canada	13,906,000	7,516,000	5,117,000	5,411,000
Europe	–	–	2,488,000	1,020,000
Other	–	–	3,056,000	3,847,000

Sales are attributed to geographic segments based on the location of the customer.

(c) Major customers:

Of the Company's sales for the year ended December 31, 2003, 71% (December 31, 2002 - 61%) were to 5 customers. The Wireless Business Unit had sales to one customer totaling $35,658,000, and the GPS Business Unit had sales to one customer totaling $8,860,000. Both of these customers are located in the United States.

12. Financial instruments:

The carrying values of accounts receivable, bank indebtedness and accounts payable and accrued liabilities, approximate their fair value due to the relatively short periods to maturity of these instruments. All long-term debt with variable interest rates is assumed to be at fair value and therefore is not revalued. The fair value of other long-term debt could not be determined because no market exists for this instrument.

12. Financial instruments continued:

The nature of these instruments and the Company's operations expose the Company to the following risks:

(a) Credit risk:

Credit risk reflects the risk that the Company may be unable to recover accounts receivable. The Company employs established credit approval and monitoring practices to mitigate this risk.

(b) Interest risk:

The Company is exposed to interest rate risk to the extent that it has significantly drawn on its operating line of credit and carries long-term debt, both of which calculate interest as a function of the current prime-lending rate.

(c) Foreign exchange risk:

The Company is exposed to foreign exchange risk in that the majority of its revenues and a significant portion of its expenses are denominated in US dollars.

13. Commitments:

The Company is committed to annual minimum lease payments, excluding tenant-operating costs of:

2004	$1,299,000
2005	1,263,000
2006	1,132,000
2007	992,000
2008	588,000
Thereafter	1,462,000

14. Related party transactions:

On March 4, 2003, the Company repurchased 700,000 common shares from a director for cash consideration of $1,184,700. The paid up capital amount of these shares was $1,340,749, and as such, the gain of $156,049 was treated as contributed surplus. Previously the Company had advanced US$750,000 to this director as an interest-bearing loan, secured by the 700,000 shares held by the director. Subsequent to the Company repurchasing the shares from the director, the loan was repaid in full.

The Company has made loans to certain employees. The total amount of such loans was $64,468 at December 31, 2003 (December 31, 2002 - $188,672) and is included in accounts receivable. These amounts relate primarily to loans made to certain key employees of the Company to assist them in paying the withholding tax on shares issued to them under the Incentive Share Plan.

15. Subsequent event:

Subsequent to December 31, 2003, a total of 688,446 common shares were issued on the exercise of 533,217 common share purchase warrants and 155,229 stock options. Total proceeds on the exercise of these warrants and options was approximately $1,300,000.

On March 3, 2004, the Company completed a fully subscribed underwritten private placement of 5,000,000 special warrants, which included 1,000,000 special warrants pursuant to the exercise of the underwriters' option. The special warrants were purchased at a price of $3.25 per special warrant, for gross proceeds of approximately $16.25 million. Each special warrant entitles the holder to acquire one common share for no additional consideration.

Corporate Information

• Directors

Related

Stephen Verhoeff
President & CEO

Michael Brower
President
Fall Creek Consultants Inc.

Hamid Najafi
President
BroadLink Research

Unrelated

Michael Lang(1)(2)(3)
Chairman
StoneBridge Merchant Capital Corp.

Paul Camwell(1)(4)
Vice President & CTO
Extreme Engineering Ltd.

Brian Hamilton(1)(4)
Executive and Financial Consultant

Howard Yenke(2)
Retired Executive

• Senior Officers

Colin Maclellan
Chief Operating Officer

Cameron Olson
Chief Financial Officer & Vice President, Finance

Theresa Lea
Vice President and General Manager, GPS Business Unit

Chris Carver
Vice President, Product Marketing, Wireless Business Unit

Phil Gabriel
Vice President, Sales, Wireless Business Unit

Mark Saks
Vice President, Product Development, GPS Business Unit

Michael Cummiskey
Vice President, Business Development, Fixed Wireless and Radio Products, Wireless Business Unit

(1) Audit Committee
(2) Compensation Committee
(3) CSI Wireless Board Chairman
(4) Corporate Governance Committee

• Legal Counsel:

Burnet, Duckworth & Palmer LLP
Calgary, Alberta

• Bankers:

CIBC, Main Branch
Calgary, Alberta

• Auditors:

KPMG LLP
Calgary, Alberta

• Registrar and Transfer Agent:

Computershare Trust Company of Canada
Calgary, Alberta

• Stock Listing:

Toronto Stock Exchange
Ticker Symbol: CSY

• Shareholder Inquiries:

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Annual & Special Meeting

The Annual & Special Meeting will be held on Thursday, May 27, 2004 at 3:00 p.m. in the Westin Hotel, Calgary, Alberta.

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